

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 PM-05 H-01 INR-07 L-03
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COME-00 EB-08 FRB-03 TRSE-00 XMB-02 OPIC-03
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FM AMEMBASSY LISBON
TO SECSTATE WASHDC IMMEDIATE 2451
INFO AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY MADRID
AMEMBASSY MOSCOW
AMCONSUL OPORTO
AMEMBASSY PARIS
AMCONSUL PONTA DELGADA
USMISSION NATO
DIA WASHDC
USCINCEUR VAIHINGEN GER

C O N F I D E N T I A L SECTION 1 OF 2 LISBON 5924

DEPT PASS TREASURY FOR SYVRUD

E.O. 11652: GDS
TAGS: PINT, PFOR, ECON, PO
SUBJECT: ASSEMBLY APPROVES COMPENSATION MEASURE

REF: LISBON 5857

SUMMARY: THE LEGISLATIVE ASSEMBLY JULY 30 APPROVED A PS-
SPONSORED MEASURE ON COMPENSATION FOR NATIONALIZED PROPERTIES.
THE PASSAGE OF A COMPENSATION MEASURE WITH THE RESULTANT
GOVERNMENT COMMITMENT TO REIMBURSE OWNERS OF NATIONALIZED
PROPERTIES ARE MAJOR POSITIVE FACTORS IN RESTORING PRIVATE
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SECTOR CONFIDENCE. SMALL AND MEDIUM INVESTORS CAN LOOK
FORWARD TO RECEIVING SOME TYPE OF COMPENSATION SHORTLY AND
CAN UTILIZE LARGER AMOUNTS FOR PRODUCTIVE INVESTMENT. THE LAW,
CONTAINS PROVISIONS ON VALUATION OF PROPERTIES, HOWEVER,
WHICH COULD DISCOURAGE SOME BIG INVESTORS FROM RETURNING WITH
THE RESULTANT LOSS IN ACCOMPANYING INVESTMENT CAPITAL AND
MANAGEMENT SKILL. END SUMMARY.

1. ASSEMBLY PASSES COMPENSATION MEASURE: THE LEGISLATIVE ASSEMBLY IN A MARATHON SESSION JULY 29-30 APPROVED THE PS BILL ON COMPENSATIONS FOR NATIONALIZED PROPERTY (PS IN FAVOR; PSD ABSTAINING AND CDS, PCP, AND UDP OPPOSED). THE MEASURE NOW RETURNS TO COMMITTEE FOR DETAILED REVIEW. THE PSD SUCCEEDED IN OBTAINING SEVERAL MODIFICATIONS TO THE PS LAW IN WORKING GROUP SESSIONS BETWEEN THE TWO PARTIES, HOWEVER, THE PSD ABSTAINED AND THE CDS VOTED AGAINST THE COMPENSATION MEASURE BECAUSE THEY DID NOT BELIEVE THEY HAD SUFFICIENT PROSPECT OF SECURING SEVERAL CHANGES REGARDING VALUATION OF SHARES AND INVESTMENT INCENTIVES. THE ASSEMBLY ON JULY 28-29 GAVE ARTICLE-BY ARTICLE APPROVAL TO A LAW ON LOCAL GOVERNMENT RESPONSIBILITIES WHICH, WITH THE GENERAL CONSENSUS OF THE FOUR MAJOR PARTIES, TOOK SIGNIFICANT STEPS TOWARD DECENTRALIZATION OF GOVERNMENTAL AUTHORITY. DUE TO CONTINUED DELAYING TACTICS BY THE PCP IN THE AGRICULTURE COMMITTEE, THE ASSEMBLY PLENARY WAS RECESSED UNTIL AUGUST 9 WHEN THE FINAL VOTE WILL BE HELD ON THE AGRARIAN REFORM LAW APPROVED LAST WEEK BY THE ASSEMBLY (REFTEL. THE ASSEMBLY WILL ONLY RESUME FOR A DAY OR TWO IN AUGUST, AS THE VOTE ON THE MEDIUM-TERM PLAN HAS BEEN FORMALLY PUT OFF UNTIL OCTOBER AS A RESULT OF PS-PSD NEGOTIATIONS.

2. EMBASSY RECEIVED COPY OF PRELIMINARY TEXT OF INDEMNITY LAW AFTERNOON OF JULY 30. (TEXT BEING POUCHED TO DEPT.)
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PRINCIPAL POINTS FOLLOW:

A) INDEMNITIES WILL BE PAID FOR CORPORATE SHARES, OTHER FORMS OF CAPITAL OWNERSHIP, BUILDINGS, AND LAND EXPROPRIATED UNDER THE AGRARIAN REFORM LEGISLATION.

B) THE PROVISIONAL VALUE OF COMPENSATION FOR SHARES WILL BE BASED UPON THE NET WORTH OF THE NATIONALIZED ENTERPRISE AS INDICATED IN ITS BALANCE SHEET ON DATE OF NATIONALIZATION, OR, IN NONE AVAILABLE, THE LATEST PREVIOUSLY APPROVED ONE (IN MOST CASES DEC. 1974). THIS VALUE WILL BE FIXED BY FINANCE MINISTRY, WITH ADVICE OF THREE-MAN COMMISSION (TWO FROM GOP AND THIRD REPRESENTING SHAREHOLDERS) WITHIN THIRTY DAYS OF PASSAGE AND APPROVED THIRTY DAYS LATER.

C) THE PROVISIONAL VALUE FOR AGRICULTURAL PROPERTY WILL BE BASED UPON THE INCOME EARNING POTENTIAL AT TIME OF EXPROPRIATION AND WILL BE APPROVED WITHIN 120 DAYS.

D) PAYMENT OF INTEREST AND PRINCIPLE WILL BE MADE BY GOVERNMENT BONDS ACCORDING TO A GRADUATED SCALE RANGING FROM (I) 12 PERCENT INTEREST OVER 6 YEARS AFTER TWO YEARS GRACE PERIOD (TO BE COUNTED FROM NATIONALIZATION DATE FOR INTEREST) FOR PERSONS RECEIVING UP TO \$1250 (CLASS I) TO (II) 2.5 PERCENT OVER 22 YEARS WITH FIVE YEARS GRACE PERIOD FOR MORE THAN \$187,500 (CLASS XII). INTERMEDIATE CLASS IS PAID WITH 8.5 PERCENT

OVER 10 YEARS WITH TWO YEARS GRACE FOR PERSONS RECEIVING
BETWEEN \$25,000 TO \$37,500. IN ACCORDANCE WITH GOP BUDGET
LIMITATIONS, ALL OR PART OF CLASS I PAYMENTS CAN BE IN CAST
UNDER LAW TO BE LATER APPROVED.

E) THERE WILL BE NO DISCRIMINATION BETWEEN NATIONALS AND
FOREIGNERS IN PAYMENT OF COMPENSATION. TRANSFER OF FUNDS IS
GUARANTEED. UTILIZATION OF INCOME FROM COMPENSATION BY FOREIGNERS
WILL BE REGULATED BY FUTURE LAW.

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F) GOP IS AUTHORIZED TO ISSUE PUBLIC INTERNAL BONDS O FUP
TO \$2.5 BILLION TO FUND COMPENSATION.
G) SPECIAL FORMS OF COMPENSATION CAN BE ESTABLISHED FOR
PAYMENT TO EX-OWNERS OF BANKS AND INSURANCE COMPANIES.
H) BONDS PAID AS COMPENSATION CAN BE UTILIZED AS COLLATERAL
FOR LOANS FROM COMMERCIAL BANKS FOR PRODUCTION, TO PAY BACK
TAXES, TO PAY DEBTS CONTRACTED BY EX-OWNERS WHILE THEY STILL
OWNED NATIONALIZED FIRMS, AND FOR CONSTRUCTION OF PRIVATE

HOUSING.

I) THE VALUE OF THE BONDS FOR PURPOSES OF (H) ABOVE
WILL BE THE TOTAL OF INTEREST AND AMORTIZATION COMPUTED AT
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PRESENT VALUE IN ACCORDANCE WITH THE TERMS OF CLASS I
J) BANKS CAN ONLY LEND, AGAINST THE BONDS, AMOUNTS UP TO
70 PERCENT OF THE PAID-IN CAPITAL OF THE COMPANY MAKING THE
INVESTMENT. LOANS MUST GO FOR PRODUCTIVE INVESTMENTS.
K) BONDS CAN BE TRADED FOR STATE OWNED SHARES IN CERTAIN
FIRMS AS A FORM OF DENATIONALIZATION. LIST OF THESE FIRMS WILL
BE PUBLISHED WITHIN 60 DAYS.

3. CONTRASTING VIEWS ON LAW: IMMEDIATE PRESS COMMENT SPARSE
AS LAW PASSED IN EARLY AM. COMMUNIST DAILY O DIARIO HAS
FRONT PAGE ARTICLE ENTITLED "\$320 MILLION FOR DE MELO
FAMILY ACCORDING TO NEW LAW." RESPECTED PORTUGUESE ECONOMIST/
BANKER/LAWYER, WHO IS WELL-KNOWN INTERNATIONALLY AND
REPRESENTS MANY OF THE POTENTIAL RECIPIENTS OF COMPENSATION,
TOLD AMBASSADOR ON JULY 28 THAT LAW WOULD DISCRIMINATE AGAINST
INVESTMENT BY LARGEST RECIPIENTS, WHO ARE THOSE MOST ABLE
TO DEVELOP PROJECTS AND MAKE INVESTMENTS, AND MIGHT EVEN BE
DISINCENTIVE TO INVESTMENT. IN CONVERSATION WITH AMBASSADOR
ON JULY 29 PRIME MINISTER SOARES DISPUTED THIS VIEW.
SECSTATE FOR EXTERNAL COMMERCE
CELESTE TOLD COMMATT ON JULY 27 THAT LAW WOULD MOBILIZE
COMPENSATION TO PRODUCTIVE INVESTMENT AND STIMULATE EXPORTS.
CELESTE EXPECTED \$500 MILLION OF NEW INVESTMENT TO STEM FROM LAW.

4. COMMENT: MOST POSITIVE ASPECT OF LAW IS FACT THAT IT
PASSED AND THAT GOP IS NOW LEGALLY COMMITTED TO INDEMNIFY OWNERS
OF NATIONALIZED ASSETS. EX-OWNERS NOW HAVE SOME FORM, MAYBE
CASH, OF COMPENSATION IN SIGHT AND HAVE OPPORTUNITY
TO IMMEDIATELY UTILIZE LARGE AMOUNTS OF CREDIT. THE GUARANTEE
OF TRANSFER OF FUNDS AND POSSIBLE CASH PAYMENTS TO SMALLEST,
MOST NEEDY INVESTORS ARE OTHER POSITIVE FACTORS. NEGATIVE
FACTORS INCLUDE LOW INTEREST RATES ON BONDS (ESPECIALLY IN VIEW
OF 30-40 PERCENT INFLATION RATES), LENGTHY AMORTIZATION
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PERIOD, WORSE TERMS FOR THOSE MOST ABLE TO INVEST, AND CLAUSES
LIMITING USES OF LOANS TO ONLY PRODUCTIVE INVESTMENT (AND
THUS APPARENTLY PROHIBITING INVESTMENT IN SALES, MARKETING,
FINANCE, SERVICES, ETC.)
AND LIMITS OF TOTAL LOAN AMOUNTS DEPENDENT ON PAID-IN, CAPITAL.

5. ON BALANCE LAW APPEARS TO PROVIDE AS MUCH AS COULD BE EXPECTED
GIVEN FINANCIAL SITUATION OF PORTUGAL, AND CURRENT POLITICAL
CLIMATE. LAW WILL BE CRITICIZED BY LARGEST RECIPIENTS.
HOWEVER, MANY WILL SEE IT AS BETTER THAN NOTHING
AND SOME WILL INVEST AS THE ONLY MEANS TO UTILIZE THEIR
PREVIOUS ASSETS.
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